Unitil
Unitil Service Corp.

February 24, 2006

BY OVERNIGHT MAIL

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd floor
Boston, MA 02110

Re: Reply Comments of Fitchburg Gas and Electric Light Company d/b/a Unitil

D.T.E. 05-GAF-P4

Dear Secretary Cottrell:

Pursuant to the Department of Telecommunications and Energy's ("Department") Request for Comments issued in the above-referenced docket on February 3, 2006, Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") provides the following Reply to the comments submitted by the Attorney General on February 21, 2006.

The Attorney General's first objection to the relief requested by Unitil is that changes to a reconciling formula (as opposed to changes in the amount a particular formula recovers) can only be accomplished pursuant to a hearing before the Department, as recognized by the Supreme Court in *Fitchburg Gas and Electric Light Company v. Department of Telecommunications and Energy, 440 Mass. 625 (2004)*. As was discussed in Unitil's Response to Request for Comments, the requirement of a hearing has been followed, as the CGAC "formula" for the recovery of gas-supply-related bad debt expenses applicable to local gas distribution companies was changed by the Department pursuant to a hearing in docket D.T.E. 05-27. Unitil's request for revision of its CGAC on a *prospective* basis, effective January 1, 2006, was approved on December 22, 2005. Thus, the only issue remaining is Unitil's request for retroactive application of the approved revised formula.

Related to his first objection, the Attorney General states that it would be inappropriate and single issue rate-making for the Department to consider just one cost in isolation on a retroactive basis and order

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recovery without inquiring whether the Company has earned an appropriate return for the year. Unitil notes that the Department has approved such fully reconciling adjustment mechanisms in the past without a challenge that they were engaged in single issue rate-making, in instances where the utility had only minimal bargaining power about the particular items of cost.[1] Moreover, as the Department stated in D.T.E. 05-27:

> [I]n a market characterized by price volatility, fixing the total amount of uncollectible expense that could be recovered as part of a base rate proceeding *could* have a significant effect on a company's earnings and *could* violate the Department's rate structure goals of earnings stability. D.T.E. 05-27, *Slip Op.* at 183 (emphasis supplied).

On this basis, the Department concluded that the gas cost related bad debt recovery methodology approved in D.T.E. 02-24/25 (as it applied to *all* companies) violated its rate structure goals. Certainly it has been the Department's practice to establish precedent without conducting an inquiry as to the particular situation of every company that may be affected. In any event, Unitil has submitted detail concerning its gas division's earnings, which are below its authorized return.

The Attorney General also argues that Unitil's reliance upon D.T.E. 05-66 as support for the relief it requests is misplaced, as in that case the Department allowed an adjustment for bad debt expense as an exogenous cost. To the contrary, Unitil does recognize this distinction. The point Unitil seeks to underscore, however, is that on an equitable basis, its request for retroactive application of the revised bad debt formula is entirely consistent with the rate treatment afforded to Bay State and Keyspan. As was pointed out in Unitil's December 15, 2006 filing, Bay State was never subject to the fixed cost recovery methodology of D.T.E. 02-24/25. As the Attorney General pointed out

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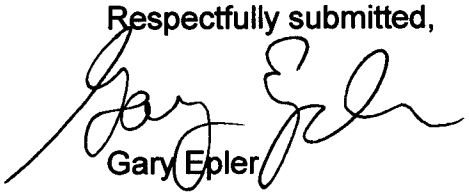
[1] See, e.g., *Electric Fuel Charge Investigation, D.P.U. 7357 (1946)* (approval of reconciling charge for cost of coal used to generate electricity); *Worcester Gas Light Company, D.P.U. 11209, at 8-10 (1955)* (approval of reconciling charge to cover cost of natural gas); *Massachusetts Electric Company, D.P.U. 17334 (1972)* (approval of purchased power cost adjustment); *Massachusetts Electric Company, D.P.U. 805/808 (1981)* (approval of oil conservation adjustment); *D.P.U. 89-114/90-331/91-80 Phase One* at 167-170 (approval of conservation adjustment); see also *Consumers Organization for Fair Energy Equality v. Department of Public Utilities, 368 Mass 599, 606 (1975).*

in D.T.E. 05-27, Bay State has been able to reconcile the CGA component of bad debt that was initially estimated in D.T.E. 97-97 to actual net write-offs such that it has recovered dollar for dollar its gas cost-related bad debt through its CGA. See D.T.E. 05-27, *Slip Op.* at 168. As for Keyspan, it has been afforded recovery of its current shortfall as an exogenous cost. Unitil is seeking the same end result, and believes that this may be accomplished in accordance with Department precedent and practice.

Finally, as Unitil has previously noted, the Department has authorized implementation of a new or revised reconciling methodology on a retroactive basis on a number of occasions. An additional example is found in D.T.E. 03-47, issued on December 24, 2003, where the Department approved NSTAR's request for a new reconciling mechanism for the recovery of pension and PBOP costs, and permitted the recovery of such expenses incurred during calendar year 2003, adjusted for any previously unamortized balances. (NSTAR was directed to exclude the first eight months of 2003 from the reconciliation adjustment, however, because the company was under a rate freeze during that portion of the year, and the Department determined that allowing the recovery of such costs during that period would contravene the intent of the freeze.)

Respectfully submitted,



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